

INTERNAL OPERATIONS AND OVERSIGHT

This chapter—one of the most important in this manual—outlines and emphasizes the importance of good internal controls as they apply to the gambling operation for which an organization's CEO, gambling manager, and members are responsible.

This chapter includes basic information on how to ensure the integrity of a gambling operation by establishing accounting and administrative oversight controls for an organization's gambling activity.



CONTENTS

Administrative Controls	
Organization responsibility.....	164
Membership meeting and minutes	166
Monthly gambling report	167
Chief executive officer.....	169
Areas of oversight	169
Gambling manager	170
Assistant gambling manager.....	171
Accounting Controls—Cash and Inventory	
Start-up loan	172
Gambling account	172
Payments journal	175
Deposit review	178
Receipts journal	179
Bank reconciliation	181
Profit carryover reconciliation.....	181
Monthly inventory verification	182
Perpetual, physical, and annual inventory	182
Site inventory	182
Internal Controls	
Auditing games	183
Internal Controls Worksheet	186
Cash shortages	190
Fund loss	194
Illegal gambling	197
Reports (Board and Revenue)	
Filing requirements.....	200
Case Studies	
Embezzlement	201
Fund losses	202
Inventory	205
Criminal charges filed	206

Administrative Controls: Organization Responsibility

The best way to have an honest and successful gambling operation is to involve an organization's members.

Delegate within the organization

Do not let an outside party, including an accountant, a consultant, a lessor, or a distributor, manage the organization's gambling operation. To do so puts an organization's gambling operation—and eventually its license—in jeopardy.

Involve more than one or two persons

Experience has shown that when an organization delegates too much authority to one person (whether a member or not), or when one person takes over the gambling operation—ordering inventory, auditing games, doing deposits, preparing reports—without oversight, theft often occurs. Most organizations with serious problems had only one or two people involved with the actual day-to-day business of conducting lawful gambling.

Keeping everyone honest

Lawful gambling is a cash business.

With huge sums of money passing through a person's hand, there may be a temptation to "just take a little that no one will miss."

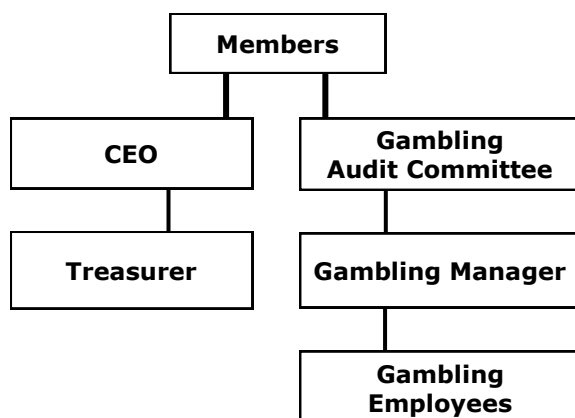
Involving an organization's membership can prevent a person from being tempted to steal and being criminally charged when caught.

Preventing major problems

If an organization's members do their job—provide oversight, approve expenditures, and participate in the gambling operation—major problems will be prevented.

The organization is accountable and responsible for the actions of its employees and volunteers.

Include administrative and accounting controls as part of the organization's business plan. The controls should show how the organization is structured and who is responsible for what.



Job descriptions—To help the employees and volunteers comply with statutes and rules, it is a good idea to have a specific job description for each person.

EXAMPLE: A job description for a paper pull-tab seller might contain these duties:

- Verify serial numbers on flare to tickets.
- Fill out all prize receipt forms completely.
- Deface all winning paper pull-tab tickets.
- Do not provide any inside information to customers.

Use the checklists provided in each "conduct chapter" as a guideline.

Administrative Controls: Organization Responsibility

Organization duties

An organization may not outsource management of its gambling operation.

The following duties must be performed only by organization members, gambling employees, or gambling volunteers:

1. Prepare source documents, including:
 - ___ inventory records for daily tracking of game inventory, site inventory, monthly physical inventory, and merchandise inventory. The person who maintains the perpetual inventory must not be the person who performs the physical inventory;
 - ___ gambling deposit slips;
 - ___ gambling occasion and daily activity records; and
 - ___ authorization for disbursement of gambling funds.
2. Provide oversight of lawful gambling, including:
 - ___ conducting lawful gambling;
 - ___ monitoring the organization's permitted premises to detect illegal gambling;
 - ___ investigating cash variances;
 - ___ determining product to be purchased;
 - ___ ordering product;
 - ___ presenting gambling report to members;
 - ___ monitoring the organization's lawful purpose rating.
3. Hire, discipline, or fire employees.
4. Train employees.
5. Deposit gambling receipts into bank accounts.
6. Verify cash banks.
7. Verify the accuracy of records and reports, including but not limited to:
 - ___ check register;
 - ___ monthly bank statement reconciliation;
 - ___ tax returns and forms;
 - ___ final audit of closed games;
 - ___ bank deposit reconciliation to game and bank records; and
 - ___ reconciliation of physical and perpetual inventory.

Administrative Controls: Membership Meeting & Minutes

Monthly report to membership required

Organizations are required to give a monthly gambling report to their membership and to include the report in the minutes of monthly membership meetings. Minutes must be kept in a secured area for 3-1/2 years. Use the LG1004 Monthly Gambling Report to Members as a guideline for the information that is required to be presented to members.

At the monthly meetings, members vote on all matters related to the conduct of gambling and give prior authorization for all expenditures of gross profits from gambling.

Prior authorization of membership required for expenditures

- Members must give prior authorization for all gambling expenditures. This means the membership must approve all expenses prior to the check being issued or electronic transaction being made.

Members may authorize estimated expenditures up to a maximum amount for each category, such as rent, inventory purchases, compensation, etc.
- Report the actual expenditures to the membership at the next month's meeting.
- Members must confirm that the actual amounts presented are less than or equal to the amounts authorized previously.
- Record the approval of expenditures by members in the meeting minutes.

Monthly Gambling Report to Members

Minnesota Statutes, Section 349.19, subdivisions 3 and 5, and Minnesota Rules, Part 7861.0320, subpart 6, require a monthly gambling report to the membership. Verify that the check register and authorization of expenditures are made available and have been made a part of the meeting minutes.

The items listed below are required to be presented to the membership each month and recorded in the meeting minutes.

Documentation Provided	Reporting Requirements for each form of lawful gambling conducted
1. G1 Lawful Gambling Monthly Tax Return with the following: ___ LG100A ___ Schedule B2 ___ LG100C ___ LG100F	<ul style="list-style-type: none"> • Gross receipts • Dollar amount of all prizes paid out • Total value of all merchandise prizes awarded from each form of gambling conducted • Lawful purpose expenditures • Profit carryover reconciliation
2. Copy of check register or itemized expense journal that includes electronic transactions.	Complete details on all allowable expenses including payee, amount, date issued, and purpose.
3. Copies of distributor invoices or perpetual inventory records.	Records of gambling equipment purchases, including type of equipment, quantity purchased, date purchased, unit cost, and name of distributor.
4. Copy of the month-end physical inventory.	Physical inventory taken at month end, including games in play, that lists the manufacturer's ID, part number, serial number, game name, cost of each game; and date and signature, in ink, of person completing the physical inventory.
5. Copy of itemized bank statement reconciliation (LG100F).	Gambling bank account reconciliation that balances with the profit carryover for each month and lists outstanding checks, including check number, payee, and amount; outstanding electronic transactions; deposits in transit; and beginning and ending bank balances for each month.
6. Fund loss report	Any fund loss discovered during the month.
7. Correspondence and other documents: ___ Gambling Control Board: Approval/denial letters, allegations, questionable expenses, profit carryover variance, annual report, other ___ Department of Revenue: Error corrections, tax bills, tax orders ___ IRS: Tax notices ___ Miscellaneous correspondence ___ Annual audit ___ Compliance review report ___ Bingo program	Correspondence sent or received relating to the lawful gambling operations.

Monthly Gambling Report to Members (continued)
Authorization of expenditures
<p>Minnesota Statutes, Section 349.15, subdivision 1, requires that "Gross profits from lawful gambling may be expended only for lawful purposes or allowable expenses as authorized by the membership of the conducting organization at a monthly meeting of the organization's membership."</p> <p>NOTE: When the membership approves an upper limit of expenses for a particular item, the report to the membership the following month must include the specific check or electronic transaction number, payee, purpose, amount, and date of payment for estimated expenditures from the previous month.</p> <p>The gambling report must include an itemized list of gambling related expenditures presented to the membership for pre-approval.</p>
Allowable expenses
<p>Pre-approval of allowable expenses must include:</p> <ul style="list-style-type: none"> • Payee or item to be paid • Brief explanation of the purpose for each expenditure • Expense amount or estimated amount
Lawful purpose expenditures
<p>Pre-approval of lawful purpose expenditures must include:</p> <ul style="list-style-type: none"> • Payee • Brief explanation of the purpose for each expenditure • Lawful purpose code • Expense amount <p>The gambling report must signed and dated by the gambling manager or other organization member who has presented the monthly report.</p>

Administrative Controls: Chief Executive Officer

CEO responsibilities

The chief executive officer (CEO) is responsible for:

1. knowing the lawful gambling statutes and rules and following them;
2. making sure that all information in applications and other documents is true, accurate, and complete, and notifying the Gambling Control Board of any changes in application information;
3. authorizing the Gambling Control Board access to the organization's records, gambling premises, and gambling bank accounts;
4. along with the gambling manager, developing internal controls to protect the organization's gambling assets and maintain proper accounting;
5. presiding over organization monthly meetings where the expenditure of gambling profits and gambling issues are considered; and verifying that the gambling report is completed;
6. assuring the accuracy of the G1 Lawful Gambling Monthly Tax Return and the LG100A, LG100C, LG100F;
7. assuring that gambling funds have been spent only for authorized and approved lawful purpose contributions and allowable expenses; and
8. attending a gambling manager seminar, if the organization has not been licensed in the past 12 months.

Prevent embezzlement or theft

To avoid the possibility of embezzlement or theft, the CEO should actively try to get organization members involved. For example:

- take advantage of continuing education classes;
- establish an audit committee;
- establish a gambling committee;
- establish a committee to get organization members involved in providing oversight; or
- check up-to-date information at www.mn.gov/qcb.

Administrative Controls: Areas of Oversight

The organization's chief executive officer and membership should establish oversight in the following areas, whether by appointing members to specific duties or establishing gambling committees:

1. auditing closed games;
2. reviewing cash shortages;
3. reviewing deposits;
4. monitoring expenditures and ensuring compliance with the lawful purpose rating;
5. reviewing fund losses and internal controls;
6. monitoring the organization's permitted premises to detect illegal gambling;
7. verifying the inventory;
8. providing information to the membership each month;
9. reconciling and verifying profit carryover;
10. verifying monthly and annual reports provided to the Department of Revenue, Gambling Control Board, and to the local unit of government, if any; and
11. reviewing the Organization Annual Report.

Administrative Controls: Gambling Manager

The **gambling manager** is the person who is in charge of the day-to-day activities of the organization's gambling operation.

The gambling manager must:

- be licensed by the Gambling Control Board;
- have a \$10,000 bond;
- have attended a gambling manager seminar and passed a written test; and
- attend a continuing education class every calendar year.

License required—See the *Gambling Manager License* chapter for qualifications to be licensed.

Gambling manager duties

A gambling manager's duties include but are not limited to:

1. supervising, hiring, firing, and disciplining gambling employees, including an assistant gambling manager, if any;
2. reviewing and monitoring the conduct of games;
3. determining the product to be purchased and put into play;
4. determining the policy of when to put games into play;
5. ensuring all receipts and disbursements have been properly accounted for in compliance with statute and rule requirements;
6. ensuring that all inventory records have been reconciled each month;
7. supervising all licensing and reporting requirements;
8. promptly filing all required monthly and annual reports;
9. assuring that the organization is in compliance with all statutes and rules related to lawful gambling;
10. assuring that illegal gambling is not conducted at a permitted premises; and
11. attending a majority of the organization's regular meetings.

The gambling manager must also ensure that required reports are properly filed with the Gambling Control Board, the Department of Revenue, the IRS and, if required, the local unit of government.

Administrative Controls: Assistant Gambling Manager

Assistant gambling manager duties

An assistant gambling manager is a person who performs any of the following:

- six or more of the functional responsibilities listed on pages 2 and 3 of the LG202 Internal Controls Worksheet (functional responsibilities are defined in Minnesota Rules, Part 7861.0320, subpart 1D);
- hires, disciplines, or fires the organization's gambling employees;
- completes the license and permit application requirements;
- negotiates leases; or
- determines product to be purchased.

No license required—There are no licensing requirements for an assistant gambling manager.

More than one assistant gambling manager allowed for an organization

One or more assistant gambling managers may be employed by an organization if each assistant gambling manager is:

- directly supervised by the gambling manager; and
- an active member or employee of the organization.

An assistant gambling manager may not be involved in the conduct of lawful gambling of another organization, except for bingo as noted below.

Assistant gambling manager for bingo

An assistant gambling manager may be employed by more than one organization if:

- the organizations lease space in the same premises for the conduct of bingo; and
- the assistant gambling manager is not paid directly or indirectly by the lessor or owner of the premises.

Duties allowed—An assistant gambling manager who is employed by more than one organization at the same premises for the conduct of bingo may supervise gambling employees during bingo occasions at the premises and assist the gambling manager with his or her duties.

Duties not allowed—Assistant gambling managers employed by more than one organization at the same premises for the conduct of bingo may not do any of the following:

1. supervise the organization's licensing and reporting requirements;
2. hire, fire, or impose permanent discipline on gambling employees, except for temporary disciplinary action that may be necessary during a bingo occasion. If temporary disciplinary action is taken, the assistant gambling manager may make a recommendation to the gambling manager regarding permanent disciplinary action;
3. determine program content or prize level requirements;
4. determine the product to be purchased and put into play;
5. be a gambling employee or volunteer at any other site where your organization conducts lawful gambling; and
6. be a gambling employee or volunteer for any other organization conducting lawful gambling at another site.

Accounting Controls: Start-up Loan

Original start-up loan—When starting a gambling operation, an organization may take out a loan from either a bank or from the organization's general fund to use as start-up funds. Deposit the money into a gambling account from which all gambling expenses are paid.

Start-up loans for additional site(s) not allowed—Money for start-up costs for additional sites must come from the organization's gambling account—not from another start-up loan.

Paying back original start-up loan; Board approval required—An organization must receive prior written approval from the Gambling Control Board before it may pay back the original start-up loan.

Submit a letter to the Gambling Control Board requesting approval to pay back the loan. Include supporting documentation showing the original transaction(s) and interest costs incurred if the loan was received from a lending institution.

Accounting Controls: Gambling Account

Separate gambling bank account required

For all receipts from gambling, establish a gambling account that is separate from all other revenues of the organization. The gambling account must be with a bank, savings and loan, or credit union within Minnesota.

Gambling account requirements

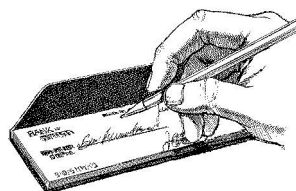
Organizations must maintain a gambling checking account that complies with statutory requirements (Minnesota Statutes, Section 297E.06, subdivision 2).

Specifically, an organization must have a checking account from which the organization can obtain, upon demand, the original check or a copy of the original check, front and back.

Gambling account restrictions and signatures

- The person who accounts for an organization's gambling funds may not be a person who accounts for the organization's non-gambling funds, such as the organization's treasurer.
- The organization's treasurer may not sign checks from the gambling account or the authorization for electronic transactions.
- Two active organization members must sign all checks and the authorization for electronic transactions for allowable expense and lawful purpose expenditures from the gambling account. More than two members may be authorized. Failure to have two authorized signatures may result in a citation being issued by the Board.
- Pre-signing blank checks is not allowed.

Two signatures required, or receive a citation.



Accounting Controls: Gambling Account (continued)

Deposits and Reimbursements

Reimbursements are allowed for the following:

1. missing receipts or receipts that the organization failed to deposit into the account;
2. cash shortages;
3. disallowed expenditures or expenses;
4. fund loss denied by the Gambling Control Board;
5. dishonored (bounced) checks or dishonored debit card payments for raffles;
6. rebate or credit refund for an expenditure originally paid out of gambling funds; and
7. profit carryover variance as authorized by the Gambling Control Board or any requirements to bring your organization into compliance with tax law.

Advertising proceeds—If an organization sells lawful gambling-related advertising, i.e. on raffle tickets or bingo programs, the money must be deposited into the gambling account and reported as other income on the LG100A.

Tax refunds—Lawful gambling-related tax refunds must be deposited in the gambling account.

Restrictions on transfers to general bank account

Gambling funds may not be transferred to an organization's general bank accounts without Gambling Control Board approval.

The only exceptions are:

1. a 501(c)(3) organization or a 501(c)(4) festival organization, for lawful purpose code A1, if the organization has met 70/30 standards for their general account expenditures; or
2. organizations restricted to one electronic fund transaction for the payment of gambling taxes for an organization as a whole may transfer to the general account the amount of taxes related to the conduct of gambling at the time when due and payable.

Pay directly from gambling account

- Pay all gambling-related expenses and lawful purposes, including gambling taxes, directly from the gambling checking account—either by check or electronic transaction.
- For electronic transactions, the bank statement must show the date, amount, payee name, and either the payee account number or the transaction number.
- All expenditures must have prior approval by organization members, and the approval must be documented in the organization's monthly meeting minutes.

Emergency expenditures from non-gambling bank account

Emergency expenditures may be made from a non-gambling bank account if the expenditure has been approved by the organization's membership.

An emergency expenditure means a financial obligation due and payable which, if not met, would require the organization to immediately stop gambling.

Gambling Control Board approval is required prior to repaying the non-gambling bank account for the emergency expenditure.

Accounting Controls: Gambling Account (continued)

When two checks may be required (gambling & non-gambling)

Occasionally an organization may need to issue two checks—one from the organization's gambling bank account and one from its general fund—for certain expenditures.

EXAMPLE—An organization purchases or leases an item that will not be used exclusively for lawful gambling, such as a copier machine.

A portion of the cost to purchase or lease a copy machine used to copy gambling reports and other items related to gambling may be taken as an allowable expense.

If 25% of the copies relate to gambling, then 25% of the cost of the copy machine is an allowable expense:

- Pay to the vendor the 25% allowable expense portion with a check from the gambling account.
- Pay to the vendor the remaining 75% with a check from the general account.

Accounting basis

The **cash basis** of accounting means that expenses are recognized when they are paid (writing the check) or when income is received.

All allowable expenses and lawful purpose expenditures must be reported on either the LG100A or LG100C on the cash basis.

Membership review

The check register for the gambling bank account must be accessible to any member who requests to review it.

Keep records

Organizations are required to keep complete, accurate, and legible general accounting records, with supporting documentation for all gambling transactions, in a secured area for at least 3-1/2 years, including all voided and canceled checks, deposit tickets, bank statements, and invoices. Do not store in an area susceptible to flooding.

Accounting Controls: Payments Journal

Payments (Disbursements) Journal—optional

While not required, it is suggested that an organization use a *Payments (Disbursements) Journal* in addition to the check register. If you use this suggested *Payments (Disbursements) Journal*, follow these procedures.

Columns 1-2

Enter the number of the check or "ET" for electronic transactions. When using checks, use and list checks in numerical order by date.

Column 3

Enter the name of the payee on the check or electronic transaction.

Column 4

Enter the actual payment amount.

Columns 5-15

For the items in the allowable expense columns, see the *Allowable Expenses* chapter for information on these categories.

Bank charges—Record in column 13 any bank charges that are automatically deducted by the bank and included on the monthly bank statement.

Columns 16 and 17

For the items in the lawful purpose expenditures columns, see the *Lawful Purpose Expenditures* chapter for information on these categories.

Columns 18 and 19

Use the *Other* column to record amounts transferred to:

- start new cash banks
- increase cash banks
- replenish the cash banks due to negative receipts
- transfer amounts to another gambling account

These are not expenditures as an organization still has the money after the check is issued or the transfer is made.

Balance journal at month end

- At the end of each month, balance the *Check Payments (Disbursements) Journal*. The total amount in column 4 should equal the combined totals of columns 5 through 19.
- Verify that columns 5 through 15 correspond to amounts reported on the LG100A and columns 16 and 17 are reported on the LG100C.
- Compare check/electronic transaction amounts and dates to the bank statement.
- Any check or electronic transaction amount not on the statement must be reconciled as outstanding.
- Investigate and correct any discrepancies.

Payments (Disbursements) Journal

[illegible]

Payments (Disbursements) Journal

[illegible]

Accounting Controls: Deposit Review

Deposit receipts within four business days

An organization must deposit all receipts in the gambling bank account within four business days of the completion of a bingo occasion, deal, game, or date of raffle. Electronic game receipts must be deposited when total net receipts reach \$2,000 or on or before the first day of the next month, whichever comes first.

It's important to get the deposit in on time—otherwise it may be considered "temporary theft."

Prevent late deposits—Know your bank's cut-off time to ensure deposits are credited on the day they are made.

Deposit slip information

The deposit slip must clearly identify the premises, amount deposited, source of income, and also include the following.

- For electronic games, include the date of activity.
- For paper pull-tabs and tipboards include the serial number for each game.
- For bingo, include the date of the bingo occasion.
- For raffles, include the date of the raffle. Raffle deposits made prior to the month of the raffle are carried as a reconciling entry on the LG100F Lawful Gambling Fund Reconciliation.
- For paddlewheels, include the series numbers of all paddletickets sold during that day's paddlewheel activity.
- For other gambling-related income, deposit tickets should describe the income source, such as:
 - reimbursements for excessive cash shortages;
 - tax refund;
 - deposits for missing receipts;
 - reimbursement for disallowed expenditures; or
 - advertising.

Audit deposits each month

Auditing deposits and closed games prevents the hiding of fund losses, such as theft, and ensures that information is reported accurately.

1. Verify that all receipts for closed games have been deposited into the gambling bank account. This verification should be done by someone other than the person who completes the Schedule B2 or LG100A.
2. Compare each cash-in-hand amount reported on the Schedule B2 to a deposit receipt. The amounts should match.
3. Check for accurate amounts, and verify that all deposits were made within the required timeframe. Are deposits consistently late? If yes, it is possible that money is being "borrowed" (temporary theft) by someone and reimbursed before the deposit is actually made.
4. For paper pull-tab games, compare the date game removed from play as shown on the Schedule B2 to the date on the LG861.
5. Match all deposit receipts to the gambling bank statement.

Accounting Controls: Receipts Journal

Receipts Journal—optional

While not required, it is suggested that all deposits for each premises be recorded in a *Receipts Journal* in addition to the check register. If the *Receipts Journal* (included on the next page) is used, follow these procedures.

Column 1

Enter the date of the deposit.

Column 2

Describe each deposit. For example, you could use:

- date of electronic game activity
- date of bingo occasion
- date of paddlewheel activity
- date of raffle
- serial number of paper pull-tabs
- serial number of tipboards
- refunds
- reimbursements

Column 3

Enter the total deposit listed on the bank deposit slip. If a deposit slip has more than one type of receipt, such as bingo and paper pull-tabs, then make an entry in each column for the separate amounts.

Columns 4-9

Enter the amount deposited for each game conducted.

Column 10

From the gambling bank account(s) bank statement, enter the interest earned as of the bank transaction date. Do not prepare a deposit slip for this entry. Report the total interest earned in the month on the LG100A.

Column 11

Record other deposits that may include but are not limited to:

- reimbursements for excess cash shortages
 - tax refunds (list interest income separately, if applicable)
 - reimbursement for denied expenditures
 - lawful gambling-related advertising income
 - income from sales of gambling-related supplies originally purchased with gambling funds, and sold to another organization
 - gambling equipment returned to a licensed distributor for a refund
- NOTE: Gambling equipment may not be sold to another organization.

Month-end total

Calculate month-end totals. At the end of each month, the total of Column 3 must equal the total of Columns 4 through 11.

Compare receipts journal, Column 3, to gambling bank statements.

- Deposits not on the gambling bank statement are reported on the bank reconciliation as "in transit."
- Investigate any discrepancies, such as unexplained or missing deposits.

Receipts Journal

[illegible]

Accounting Controls: Bank Reconciliation

Reconcile monthly bank statement

Reconciliation of monthly gambling bank statements is a part of the profit carryover reconciliation. The following procedures are recommended for reconciling monthly bank statements.

1. Record the closing or ending balance from the bank statement.
2. Record the deposits made since the ending date on the bank statement. Identify all deposits recorded in the checkbook register that are not on the bank statement or deposits on the bank statement that are not in the check register. Reconcile the deposits to game and bank records.
3. Subtotal the closing balance and the deposits made since the ending date on the statement.
4. List the check numbers and amounts that have not cleared the account on this statement or any prior statements. Include electronic transactions.
 - Compare the list of checks and electronic transactions that have cleared the bank with the checkbook register.
 - List the outstanding checks issued and electronic transactions made but not yet listed on the bank statement. Record the check number and the dollar amount of the checks and electronic transaction information.
 - Record any bank debit or credit memos not recorded in the checkbook register, such as bank service charges.
5. Add the total amount of all checks not returned or electronic transactions not on the statement.
6. From the subtotal in item 3 above subtract the total checks not returned and electronic transactions not on the statement. This is the balance.

The month-end balance shown on the gambling bank statement should match the checkbook register balance. This process is much easier and faster if you have the bank cut the monthly bank statement at the close of business on the last day of the month.

Accounting Controls: Profit Carryover Reconciliation

Profit carryover is a cumulative figure showing the total net gambling receipts minus gambling expenditures.

- Reconciliation of the profit carryover with the ending monthly balance in all gambling bank accounts is required.
- An organization is required by law to maintain a zero variance each month.
- Use the LG100F to reconcile the gambling fund to the profit carryover each month. The LG100F is emailed each month with the LG100A and LG100C in electronic format to the Gambling Control Board.

The electronic format is available at www.mn.gov/gcb.

Steps needed to reconcile profit carryover

1. Reconcile the monthly bank statement for each gambling account. Include a list of outstanding checks and deposits in transit.
2. Reconcile the gambling fund using the LG100F and all month-end bank reconciliations to get a total gambling fund balance.
3. Determine the profit carryover on LG100F using the amounts from the LG100A and LG100C.
4. Compare the gambling fund balance with the profit carryover on LG100F and investigate any discrepancies.

If a variance remains after it has been thoroughly investigated, contact your Compliance Specialist at the Gambling Control Board.

Accounting Controls: Monthly Inventory Verification

Monitor inventory each month

The gambling inventory must be monitored each month. If an organization has missing games, this may mean that the games have been played, the receipts have not been deposited into the gambling account, and the games have not been reported on the Schedule B2 or LG100A.

Two or more persons in the organization must be responsible for inventory. This internal control procedure helps protect an organization from theft.

Perpetual, physical, and annual inventory—separate responsibilities

Perpetual inventory—One person keeps the perpetual inventory record, an ongoing record from distributor invoices and closed games.

- This person may not do the physical inventory or the annual certified inventory and cash count required by Revenue.

Physical inventory—A different person conducts a physical inventory at the end of each month to verify the accuracy of the perpetual inventory record. This means the person actually goes to each premises where games are stored or in play, records the inventory including games in play, and signs and dates the physical inventory records.

- This person may not be the individual who controls the inventory on a daily basis. For example, a paper pull-tab seller or a person who does the perpetual inventory may not be involved in doing the physical inventory.
- This person may not conduct the annual certified inventory and cash count required by Revenue.

Comparison of perpetual and physical inventory—A person compares the accuracy of the perpetual and physical inventories to ensure that no inventory is missing.

Annual certified inventory—See the *Inventory* chapter for information on the annual inventory and cash count that is required by the Department of Revenue for all licensed organizations at the end of the organization's fiscal year.

Site inventory

At each site an organization must have a site inventory listing all games. When doing a site visit, review the site inventory list, and locate all games on the list. If a game cannot be found or if games are found that are not included on the list, this indicates a potential fund loss. Contact your Compliance Specialist at the Gambling Control Board for information on how to report missing games.

See the *Inventory* chapter for requirements and instructions.

Internal Controls: Auditing Games

Auditing paper pull-tab and tipboard games; verifying B2 and deposit

1. **Review the game flare** to verify the ideal gross receipts and total ideal prizes available including the last sale prize, if any.
2. **Count all unsold tickets.**
3. **Add the prize values** of all redeemed tickets.
4. **Verify the above figures** with the Schedule B2 information. To assure the accuracy of reporting actual long/short amounts, do the math as explained in the column headings of the Schedule B2.
5. **Compare the cash-in-hand** amounts on the Schedule B2 to the amount on the deposit receipt.
6. **Review the prize receipts** for clear and complete information.
 - Are they signed by the employee and the winner?
 - Do they contain the date and time?
 - Has all required information been completed?
 - If the time the ticket was redeemed is listed on the prize receipt, was the redemption made during business hours?
 - Do signatures appear valid?

If the answer is “no” to any of the above questions regarding prize receipts, review with the sellers the procedures for completing the prize receipts. Contact a Compliance Specialist with any concerns.

- Are lessors, lessor family members, or gambling employees signing as the winner? If the answer is “yes” review with the sellers and/or the lessor the restrictions of who may and may not play.

7. **Examine the tickets**
 - Have winning tickets been defaced?
 - Verify that serial and part numbers correspond between tickets, flare, invoice, and perpetual inventory.
 - Is the game listed on the invoice correctly?
 - Examine the unsold tickets to verify that they have not been tampered with. Broken perforations on the windows of a paper pull-tab ticket may indicate that an individual has been manipulating tickets (called “peeking” or “cracking”) to identify winners. If tampered tickets are found, contact a Compliance Specialist at the Gambling Control Board.

Reviewing paper pull-tab and tipboard games at the site—spot checks

Spot checking games at the site is an effective way to identify and prevent potential theft if money is missing. Theft charges could be filed.

For a closed game at the site:

- verify that the cash has been deposited within four business days of game close or that the cash is still at the site; and
- review prize receipt dates and times as that is a good indicator of when a game was played and closed.

For a game in play:

- count the cash drawer;
- compare the value of the unsold tickets and total prizes paid to the cash count and the LG861; and
- check accuracy of posting.

If there are potential problems, contact a Compliance Specialist at the Gambling Control Board.

Internal Controls: Auditing Games (continued)

Be on lookout for counterfeit currency

Counterfeit \$20 and \$100 bills have been discovered at gambling premises in Minnesota. These were real, lower denomination bills that had been bleached and then reprinted in \$20 and \$100 denominations.

Because the bills were printed on authentic US Treasury paper, counterfeit detection pens were not effective. The only giveaway on the bills is the magnetic strip embedded in the paper.

One- and two-dollar bills do not contain the strip. All other bills printed since 1990 contain the strip which will show the bill's real denomination.

Alert your paper pull-tab sellers to carefully inspect all \$20, \$50 and \$100 bills they receive, even bills exchanged for change by the lessor. The magnetic strip imbedded in the bill can be seen by holding the bill up to a bright light.

Verify that the denomination on the strip matches the denomination printed on the bill.

Also, instruct your sellers not to accept a bill from a customer who claims to have received a counterfeit bill in change from the paper pull-tab operation. Instruct the customer to call police if they are in possession of a questionable bill. The Board will likely deny a fund loss request involving counterfeit currency if the organization has not exercised due diligence in educating its employees on how to identify counterfeit bills.

The following is from the U.S. Secret Service website:

If you receive a counterfeit bill:

1. Do not return it to the passer.
2. Delay the passer if possible.
3. Observe the passer's description, as well as that of any companions, and the license plate numbers of any vehicles used.
4. Contact your local police department (or U.S. Secret Service).
5. Write your initials and the date in the white border areas of the suspect note.
6. Limit the handling of the note. Carefully place it in a protective covering, such as an envelope.
7. Surrender the note only to a properly identified police officer or a U.S. Secret Service special agent.

For more information go to:
www.newmoney.gov

Internal Controls

Use the required LG202 Internal Controls Worksheet

In addition to any other documented procedures an organization has approved and implemented, an organization must use the LG202 Internal Controls Worksheet.

The worksheet is used to clarify who may and may not perform functional responsibilities and provides for a proper segregation of responsibilities. The worksheet contains shaded areas to show who may not perform certain responsibilities.

The LG202 is available from this manual, at www.mn.gov/gcb, or from the Gambling Control Board.

Objectives of internal controls

An organization is responsible for developing a system of internal accounting and administrative controls for its gambling operation that will help the organization to:

- develop a plan for recording, counting, depositing, and verifying gambling funds and resolving any discrepancies;
- determine procedures and accountability for inventory control, opening and closing games, auditing closed games, and resolving any discrepancies;
- maintain security of gambling funds and equipment;
- spend gambling proceeds for lawful purposes and allowable expenses as approved by the organization's membership;
- protect the organization from theft and fraudulent reporting and ensure compliance with reporting requirements; and
- ensure that fair play of games to the public is not restricted.

LG202 Internal Controls Worksheet

Keep this required worksheet in your files.

Organization Name: _____ License Number: _____

OBJECTIVES: Your organization is responsible for developing a system of internal accounting and administrative controls for your lawful gambling operation. In addition to any other documented procedures your organization has approved and implemented, the use of this required form will help your organization identify key areas of concern and responsibility. Your system must meet the following objectives:

1. transactions are made with the authorization of your organization's management;
2. gambling revenue transactions are recorded properly and completely to maintain accountability for assets;
3. assets are secured and access to assets is only permitted with the authorization of your organization's management;
4. recorded gambling funds and equipment are monitored on an ongoing basis and discrepancies are resolved;
5. separation of duties, functions, and responsibilities to protect the organization from theft and fraudulent reporting and to ensure compliance with all lawful gambling reporting requirements; and
6. fair play of the games to the public is not restricted.

GAMBLING MANAGER DUTIES: The gambling manager's primary duties are:

1. supervising, hiring, firing, and disciplining gambling employees, including an assistant gambling manager, if any;
2. reviewing and monitoring the conduct of games;
3. determining the product to be purchased and put into play;
4. determining the policy of when to put games into play;
5. ensuring all receipts and disbursements have been properly accounted for in compliance with statute and rule requirements;
6. ensuring that all inventory records have been reconciled each month;
7. supervising all licensing and reporting requirements;
8. promptly filing all required monthly and annual reports;
9. assuring that the organization is in compliance with all statutes and rules related to lawful gambling;
10. assuring that illegal gambling is not conducted at a permitted premises; and
11. attending a majority of the organization's regular meetings.

ASSISTANT GAMBLING MANAGER: A person is considered an assistant gambling manager if they perform **any** of the following:

- Hires, fires, or disciplines gambling employees.
- Determines product to be purchased.
- Completes license and permit application requirements.
- Negotiates leases.
- Six or more functional responsibilities listed in items 1-17 on pages 2-3.

List name(s) of your organization's assistant gambling managers.

1. _____
2. _____
3. _____
4. _____

LG202 Internal Controls Worksheet

Organization: _____ License: _____

FUNCTIONAL RESPONSIBILITIES	List the name(s) of the person(s) assigned. Attach additional sheets if necessary.							
		Gambling manager	Member/Committee	Employee/volunteer	Lessor - Bar Op	Lessor - Booth Op	Accountant	Other (specify)
REPORTS								
1. Prepares reports submitted to Gambling Control Board and Revenue. If performed by accountant or other person, list person who verifies.								
2. Presents monthly gambling report to membership.								
3. Records the monthly gambling report and authorization of expenditures in organization meeting minutes								
EXPENDITURES								
4. Ensures prior authorization for all gambling expenditures is obtained from membership.								
5. Monitors lawful purpose rating for compliance.								
BANK ACCOUNT AND DEPOSITS								
6a. Maintains the check register (may not do item 14) If 6a performed by accountant or other person, list person who verifies.								
6b. Prepares checks and electronic transaction authorizations for signatures.								
7. Signatories on gambling account (may not be organization's treasurer) .								
8. Prepares bank deposits (may not do items 13 or 14) .								
9. Deposits gambling receipts (may not do items 13 or 14) .								

LG202 Internal Controls Worksheet

Organization: _____ License: _____

FUNCTIONAL RESPONSIBILITIES	List the name(s) of the person(s) assigned. Attach additional sheets if necessary.	Gambling	Member/	Employee	Lessor - L	Lessor - L	Accountant	Other (sp)
INVENTORY								
10a. Maintains perpetual inventory (may not do item 10b).								
10b. Conducts month-end physical inventory (may not do item 10a or be the seller).								
11. Compares month-end physical inventory to perpetual inventory & reconciles differences. If 11 is performed by accountant or other person, list who verifies.								
12. Maintains merchandise inventory records.								
AUDITS AND VARIANCES								
13. Performs final audit of closed games (may not do items 8, 9, 25, or be the seller). If performed by accountant or other person, list who verifies.								
14. Reconciles bank statement to checks, electronic transactions, and deposits listed in check register. Reconciles bank deposits to game and bank records (may not do items 6a, 8, or 9). If performed by accountant or other person, list who verifies.								
15. Verifies and resolves profit carryover variances. If performed by accountant or other person, list who verifies.								
16. Investigates and resolves fund losses (theft) of missing inventory, tickets, and/or receipts.								
17. Investigates and resolves cash shortages.								
NOTE: Your organization's members, gambling employees, or gambling volunteers must: • complete all source documents for gambling occasion and daily activity records, • complete all inventory records (daily tracking, site, physical and perpetual), and • verify that all gambling expenditures, equipment, assets, and receipts are properly accounted for.								

LG202 Internal Controls Worksheet

Organization: _____ License: _____

FUNCTIONAL RESPONSIBILITIES	List the name(s) of the person(s) assigned. Attach additional sheets if necessary.							
		Gambling manager	Member/Committee	Employee/Volunteer	Lessor - Bar Op	Lessor - Booth Op	Accountant	Other (specify)
OTHER								
18. Establishes procedures to ensure security over assets (equipment and receipts).								
19. Establishes procedures for opening/closing games and for the conduct of games which ensure that fair play to the public is not restricted.								
20. Develops job descriptions for employees and volunteers.								
21. Trains employees.								
22. Orders products as authorized by gambling manager or assistant gambling manager.								
23. Performs random spot checks of games in play.								
24. Verifies cash banks.								
25. Performs random spot checks of closed games (may not do 13).								
26. Monitors conduct at all of the organization's permitted premises to detect illegal gambling.								
27. List other responsibilities (attach additional sheets).								

OTHER GUIDELINES**Security recommendations:**

- Ensure that security measures are put into place to protect assets and all employees/volunteers understand the procedures to follow.
- The use of a safe is recommended to secure assets.
 - ✓ Keep the safe locked at all times.
 - ✓ Do not leave the safe open and unattended.
 - ✓ Give the combination only to assigned personnel.
 - ✓ Never post the safe combination.
- If a security alarm is used, instruct employees on the proper procedures to follow.
- Do not hide money in an unsecured container on the premises. Money must be kept secure at all times.
- Keep track of keys. Do not leave keys on the premises.
- Limit access to assets. Determine who may have access to assets.

The establishment of a **Gambling Committee**, comprised of members, is suggested to help provide oversight and provide recommendations to the membership.

A **Gambling Committee** might perform the following:

- Review prepared reports.
- Establish criteria for charitable contributions.
- Review requests for charitable contributions and make recommendations to the membership.
- Final audit of games.
- Maintain or verify the check register.
- Monitor compliance with lawful purpose rating.
- Reconcile bank statements to checks, electronic transactions, and deposits listed in check register.
- Reconcile bank deposits to game and bank records.
- Verify and resolve profit carryover variances.
- Other functions determined by the membership.

Signature

I affirm that a comprehensive system of internal controls has been developed and implemented, and will be available for review. The effective date of this system of internal controls is ____/____/____.

Chief Executive Officer_____
Date_____
Gambling Manager_____
Date

Data privacy notice: The information requested on this form and any attachments will become public information when requested and received by the Board, and will be used to determine your compliance with Minnesota statutes and rules governing lawful gambling.

Internal Controls: Cash Shortages

This section on cash shortages deals primarily with cash shortages in paper pull-tab games. However, this information can generally be applied to the other forms of lawful gambling.

What is a cash short?

"Cash shortage" is commonly referred to as "cash short."

- Cash short is when the cash deposited is less than the net receipts. It occurs when mistakes are made when handling the cash or tickets.
- A cash shortage is different than negative net receipts (a game played to a loss). Negative net receipts occur when prizes awarded exceed ticket sales for the game.
- A cash shortage differs from a fund loss, which involves missing cash or inventory.

See the *Fund Loss* section in this chapter.

What is the .3% reporting limit?

Some are under the misconception that statutes allow theft or mismanagement of funds up to a .3% limit as a cash shortage. This is not true. Minnesota statutes impose a limit on reporting cash shortages as an allowable expense, but they do not provide an allowable limit for the theft or mismanagement of gambling funds.

What is the Board's authority to require a reduction in cash shortages?

Minnesota Rules, Part 7861.0320, subpart 1E, states in part:

"...The board must require that the organization revise its internal accounting and administrative control systems if they do not meet the requirements in this subpart. Failure to respond to the board's notice that the organization must revise its internal accounting and administrative control systems must result in the board taking disciplinary action."

By addressing cash shortages during the compliance review process, your Compliance Specialist will work with you to be aware of potential problems. This is done by reviewing shortages for each site, recommending changes in internal controls, additional employee training, and changes in procedures. Ultimately, it is your organization and charities that benefit from these efforts.

Does a cash shortage indicate a potential problem?

Cash shortages fall into two general categories

Human error or mistakes include:

- Overpaying on a winning paper pull-tab.
- Giving the wrong change to a player.
- Giving the wrong number of paper pull-tab tickets to a player.
- Not auditing or reporting games accurately, which skews net receipt figures reported to Revenue.
- Money mixing between cash drawers.

Dishonesty or stealing include:

- Skimming by anyone associated with the games or cash. Regular losses may indicate that skimming is occurring. For example, gambling employees might be:
 - opening paper pull-tabs (not allowed) and not paying for them;
 - taking funds directly from the cash banks and game receipts;
 - giving free paper pull-tabs to friends; or
 - taking a percentage but keeping the amount under .3% to prevent detection.
- Someone stealing cash or paper pull-tabs when unattended or the premises is closed.

Internal Controls: Cash Shortages (continued)

Reimbursements for cash shortages

BOOTH Operations

For booth operations, complete a separate Worksheet CS-Cash Shortages each month for each site.

- If there is a cash shortage, check the records to determine what caused an excessive shortage and if any corrective action needs to be taken. Refer to the *Prevention* section in this chapter.
- Carry forward any positive difference between the shortage limit and actual shortage to offset future excess cash shortages during the fiscal year of July 1 through June 30.
- If the **cumulative** cash shortages exceed .3% of the gross receipts per site at fiscal year end on June 30, reimburse the gambling account from a non-gambling source of funds by July 20.
- Report the reimbursement on LG100A.

BAR Operations

For bar operations at leased sites, the lessor is responsible for cash shortages.

Any cash shortage at the end of the month is deducted from the monthly rent or reimbursed by the lessor to the organization.

Paper pull-tab dispensing device shortages

- **Cash bank**—If the shortages are in the cash bank used to redeem winning tickets, then the lessor is responsible.
- **Malfunctions**—If the shortages are caused by malfunctions of the machine (when the cash in the machine does not match the number of tickets dispensed), then the organization is responsible.

Worksheet and instructions

Worksheet CS-Cash Shortages and instructions are available at www.mn.gov/gcb, or contact your Compliance Specialist at the Gambling Control Board.

Keep the worksheet with your records. Do not send it to the Gambling Control Board or Department of Revenue unless specifically requested to do so.

Internal Controls: Cash Shortages (continued)	
Prevention	
Monitor your site shortages	<p>Monitoring shortages at each site will point out which gambling premises may have problems that require attention.</p> <p>An organization may also want to monitor its employees. If a site is experiencing excessive cash shortages, do not ignore the problem. Take action!</p> <ul style="list-style-type: none"> • Supervise the conduct of games. Review prize receipts for clear and complete information, a valid ID, and names and signatures of winners. • Develop strong working relationships with gambling employees. • Continually support employees by supervising them directly, reviewing procedures and changes, rewarding them for jobs well done, and providing additional oversight and training.
Review your internal controls	<ul style="list-style-type: none"> • Are internal controls being followed? • Is there enough separation of responsibilities in handling the receipts, so that the organization has checks and balances to verify the amounts deposited with the amounts reported? <p>For good internal controls, the person who counts the cash, completes the deposit slip, and makes the deposit should not be the same person who is responsible for reporting that information on the Schedule B2. A seller may not complete the final audit of a game for reporting on the Schedule B2.</p>
Limit access to gambling product and cash	<p>Limit access to the gambling product and cash. For example, buy a safe for nightly security of cash from closed games and games in play, lock up all unplayed, in-play, and closed games, tell sellers to secure the games when left unattended for any reason, and when cash changes hands (for example, between lessor and gambling manager), and get receipts.</p>
Check games in play	<p>Designate an organization member, employee, or volunteer who is not a seller to select and spot check games in play. The person should:</p> <ul style="list-style-type: none"> • Count all the unsold tickets, redeemed winning tickets, and the cash drawer. • Subtract the unsold ticket count from the total ticket count of the game to get the gross receipts. • Subtract the redeemed winning ticket amount from the gross receipts amount to get the net receipts. • Compare the net receipts to the cash on hand, less the starting cash bank. They should match. <p>If a large variance in a game occurs, investigate.</p> <ul style="list-style-type: none"> • Review the LG861 Site Control/Tracking and Auditing of Paper Pull-Tab Game form. • Determine who has been selling from the game since it was placed out for play or the last spot check was made. • Interview sellers and remind them that cash shortages are not tolerated. • Review prize receipts (see next page).

Internal Controls: Cash Shortages (continued)

Cash shortages continue? What to do?

Change your internal controls

If cash shortages continue in spite of spot checks, establish stronger internal controls.

To strengthen the organization's internal controls, make each seller or group of sellers responsible for a separate game or games. This procedure helps to secure the game and can identify a specific person if shortages occur.

- Assign sellers their own paper pull-tab games to sell.
- Lock and secure the game.
- Allow no one other than the seller access to the game.
- Keep receipts in a locked bank bag in a safe when the seller is not working.

Audit games every shift

This is similar to spot checking. Ask each seller to audit the games at either the beginning or the end of the work shift. The seller should:

- count the cash drawer, unsold tickets, and redeemed winning tickets, and
- record the information on a control form and sign it.

The next seller should audit the same game and sign the control form to confirm the accuracy of the previous shift.

Suggestion: Someone other than the sellers should periodically compare the cash to the LG861 tracking form. This review ensures the accountability of the sellers.

Review your prize receipts

Look for clues that may indicate a problem.

- Does one person's name continually appear on prize receipts for most of the major winners in a game?
- Is this person a regular customer? A friend or relative of the seller? An unfamiliar name?
- Are date and time or signature lines frequently left blank?
- Is the signature for the same player consistent?
- Is information legible?
- Is the time that is listed on the prize receipt during business hours?
- Are the dates on the prize receipts prior to or after the dates the game was in play?

Make changes at the premises

If cash shortages continue, consider other options.

- Install a paper pull-tab dispensing device. If the space is leased, the lessor may provide the cash bank.
- Install security cameras and watch the tapes.
- Discontinue gambling at the site and notify the Gambling Control Board of the reason for terminating the lease.

Internal Controls: Fund Loss
Fund loss by questionable means
<ul style="list-style-type: none"> • A “fund loss by questionable means” involves missing cash or inventory, counterfeit currency or tickets, or prizes paid from a game not conducted in compliance with statute and rule. A fund loss may be due to situations such as burglary, robbery, or employee theft. • Use the LG250 Fund Loss Request form to request approval from the Gambling Control Board to adjust the profit carryover to account for the loss. • A police report is required in order for the Gambling Control Board to consider the fund loss request. • If either unplayed (new) games or played game remnants (in storage) are lost due to a disaster such as fire, flood, blizzard, tornado, or other catastrophic event, contact the Department of Revenue at 651-297-1772 immediately for instructions on how to handle the inventory loss.
Cash shortages
<p>A cash shortage is the difference between the net receipts for a game and the actual cash on hand to be deposited for that game, and usually is caused by a mistake. (See the <i>Cash Shortages</i> section in this chapter for additional information.) A fund loss by questionable means is not included in the cash shortage calculation.</p>
Notify local law enforcement IMMEDIATELY, AND notify Board within 60 days
<p>When a fund loss is discovered, report it to local law enforcement officials:</p> <ul style="list-style-type: none"> • within 24 hours for a fund loss from a paper pull-tab dispensing device, or • within five days of the discovery for all other forms of gambling. <p>The Board will not consider the fund loss request if the loss is not reported:</p> <ul style="list-style-type: none"> • to local law enforcement officials within the above timeframes; or • to the Board within 60 days, even if you do not yet have a copy of the police report. <p>If the organization fails to meet these reporting requirements, the organization will be required to:</p> <ul style="list-style-type: none"> • reimburse its gambling account with funds from a non-gambling source for the amount of the loss; and • provide documentation of the reimbursement to the Board within 60 days of the loss.
Reporting a fund loss
<ol style="list-style-type: none"> 1. Report the loss to the membership and document it in the meeting minutes. 2. For instructions on reporting the game(s) on a separate Schedule B2, refer to the tax instruction booklet available from Revenue. 3. If part of the game or money is missing, contact Revenue at 651-297-1772 for assistance on determining how the game should be reported on the Schedule B2. 4. Submit the Schedule B2 with the tax return due for that month. 5. The games should be noted in the inventory records as a fund loss and should no longer be included as unplayed on the inventory records. 6. Record the amount of the loss on the LG100F until the fund loss is either approved or denied by the Gambling Control Board. <p>For questions on reporting a fund loss, contact your Compliance Specialist.</p>

Internal Controls: Fund Loss (continued)

Required action that must be taken within 60 days...ONE of the following

1. Request an adjustment to the profit carryover

→ An organization may request an adjustment to its profit carryover.

IMPORTANT

→ **Within 60 days of discovering the loss**, send the LG250 Fund Loss Request form and attachments directly to the Gambling Control Board. If any of the required attachments are unavailable, send the request to the Board and attachments can be mailed separately at a later date.

→ **The Board will not consider a fund loss request for an adjustment if the request is not submitted within 60 days of discovering the loss.** (Minnesota Rules, Part 7861.0320, subpart 9.)

The LG250 Fund Loss Request asks for the following information:

- premises name;
- amount of loss;
- date and time of loss;
- explain of loss;
- how were assets secured;
- who was in control of assets;
- who had access;
- date reported to membership;
- what internal controls were in place;
- were internal controls followed; and
- resulting internal control changes.

Attach to the LG250 copies of the following:

- local law enforcement report, if available, or a copy of a letter indicating that a report copy has been requested;
- separate Schedule B2 for the games in question;
- LG100F; and
- meeting minutes where the loss was reported to the members.

Do not attach the request form and attachments to the tax return or other reports.

Until the fund loss is either approved or denied by the Gambling Control Board, record the fund loss amount on the LG100F.

2. Reimburse the gambling account

If an organization does not submit an LG250 Fund Loss Request, then within 60 days of discovering the fund loss the organization must provide documentation to the Gambling Control Board showing that the gambling account was reimbursed with funds from a non-gambling source for the amount of the loss.

Submit the following:

- a copy of the canceled gambling bank account deposit slip and bank receipt;
- a copy of the canceled check from a non-gambling source; and
- the date the loss was reported to the membership.

Internal Controls: Fund Loss (continued)

Fund loss—restitution or insurance payment

If an organization has insurance that may cover part or all of the loss, the Gambling Control Board will not take action on the fund loss request until the insurance claim has been settled. If restitution will be received, the Board will take action on the fund loss request, even if the restitution has not been received.

IMPORTANT: Even if the insurance payment or restitution has not been received within 60 days of discovery, the organization must still submit the fund loss request within 60 days of discovering the loss.

When an insurance payment or a one-time restitution payment is received, do the following:

1. deposit the funds into the gambling account within four business days;
2. make copies of the insurance check and the deposit receipt and submit them to the Gambling Control Board. Write the organization's license number and "Fund Loss Attachment" on the copies; and
3. on your next monthly LG100F, reduce the amount that is listed on the LG100F as a fund loss by the amount deposited.

The Board will reduce the amount of the requested profit carryover adjustment (fund loss request) to reflect the insurance or restitution payment amount.

If multiple restitution payments will be received over a period of time, an organization should follow the same procedures above whenever payment is received, or contact their Compliance Specialist for instructions.

Gambling Control Board consideration

When an organization submits a fund loss report, the Gambling Control Board will review whether the organization had adequate security and internal controls in place to prevent the loss. A major reason for denials of fund losses is that an organization had inadequate internal controls and/or security over its gambling assets.

Security

When gambling equipment and funds are not under an employee's direct control, they must be in a secure, locked location.

- Leaving gambling funds on a counter—even in a premises that is closed and locked—may be considered poor security.
- Another reason for denial of a fund loss request is a lack of acceptable security, such as hanging a paper pull-tab booth key on the wall, or setting a bank deposit on the bar and walking away to do something else.
- An example of good security is to lock the gambling money in a secured safe. Many organizations bolt the safe to a floor.

Internal controls

Good internal controls will help an organization identify a fund loss in a timely manner and will assist in identifying who would have had access or an opportunity to steal the funds or equipment.

Examples of poor internal controls:

- If an organization discovers that deals of paper pull-tabs are missing from inventory and determines that this occurred over the last six months, the fund loss request will likely be denied because of poor internal controls and oversight.
- If money from a game closed on December 10 is stolen from the gambling manager's car on December 24, the Gambling Control Board would likely deny the request because the funds were not deposited within four business days.

Gambling Control Board approval or denial

Approval—If the Gambling Control Board approves a fund loss request, the organization will be notified in writing to adjust the LG100F, Lawful Gambling Fund Reconciliation.

Denial—If the Gambling Control Board denies a fund loss request, the organization will be notified in writing.

The organization may be required to reimburse its gambling account for the amount of the loss and provide proof of reimbursement with funds from a non-gambling source within 90 days of the Gambling Control Board's denial.

Internal Controls: Illegal Gambling

Sanctions imposed for illegal gambling

Premises permit—If illegal gambling occurs at a premises, the Gambling Control Board shall suspend the premises permit up to 90 days for a first occurrence.

The Gambling Control Board considers several factors in determining the length of the suspension:

1. Did the organization notify the lessor, in writing, that illegal gambling was being conducted at the premises and request that the lessor take appropriate action?
2. Did the organization or any of its agents know that the game or device at the site was illegal or was designed to be capable of being used in a manner that causes illegal gambling?
3. To what degree did the organization cooperate with state and local authorities?
4. Did the organization or any of its agents participate in the illegal gambling?
5. What was the nature or severity of the violation?

Organization license—The Gambling Control Board will suspend or revoke an organization's license if the organization or any of its agents participated in the illegal gambling or knowingly permitted it.

What to do if you suspect illegal gambling is happening at your site

Notify the lessor, in writing, that illegal gambling is being conducted at the premises. In addition, contact the local law officials or the Department of Public Safety's Alcohol and Gambling Enforcement Division at 651-201-7500, Ext. 3.

It is important that action be taken to stop the illegal gambling activity before it affects the status of the organization's premises permit.

Payment of rent when premises permit is suspended

The Gambling Control Board may authorize an organization to withhold rent from a lessor for a period of up to 90 days if the Board determines:

- that illegal gambling occurred on the premises; or
- that the lessor or its employees participated in the illegal gambling or knew of the gambling and did not take prompt action to stop the gambling.

The organization has the right of continued tenancy during the time period that the Board determines rent may be withheld.

Suspended premises—If the premises permit is suspended, the organization may not pay rent or other costs contained in the lease agreement for the site during the term of the suspension.

Internal Controls: Illegal Gambling (continued)	
What is a bet?	
A "bet" is defined as "a bargain whereby the parties mutually agree to a gain or loss by one to the other of specified money, property or benefit dependent upon chance although the chance is accompanied by some element of skill." (Minnesota Statutes, Section 609.75, subdivision 2.)	
Private social bets allowed	
<p>Social bets are allowed only if they are done in a private social setting. However, social bets are illegal if:</p> <ul style="list-style-type: none"> • they are part of "organized, commercialized, or systematic gambling"; or • the owner of the location of a social bet derives any profit from the bet, organizes regular occasions for such bets, or advertises their occurrence. 	
Card games allowed	
<div style="display: flex; justify-content: space-between;"> <div style="border: 1px solid black; padding: 10px; width: 30%;"> <p>Tournaments or contests for card games known as cribbage, skat, sheephead, bridge, euchre, pinochle, gin, 500, smear, or whist are only allowed when:</p> <ul style="list-style-type: none"> • there is no direct financial benefit to the promoter or organizer; and • the sum of all prizes does not exceed \$200 per occasion. <p>An entry fee is allowed for these games.</p> </div> <div style="width: 65%;"> <p>Texas Hold 'em—A Texas Hold 'em tournament (card game) is allowed under the following conditions:</p> <ul style="list-style-type: none"> • no entry fee or other consideration for participation is allowed; • there is no direct financial benefit to the promoter or organizer; • no person under 18 may participate; • the value of all prizes awarded to an individual winner at a location may not exceed \$200 per day; and • reasonable accommodations must be made for players with disabilities. Accommodations to the table and cards shall include the announcement of cards visible to the entire table and the use of braille cards for players who are blind. <p>Texas Hold 'em may not be played on a video device.</p> </div> </div>	
Chance drawings	
<p>State law allows chance drawings that do not require consideration if:</p> <ul style="list-style-type: none"> • the participant is not required to purchase a ticket for a drawing in order to win a prize; and • the participant must be allowed to enter the drawing without any consideration for a chance to win a prize. <p>A drawing organizer may not imply that a participant must pay a donation for the chance to win a prize (for example, "Suggested Donation \$5"), or may not coerce a participant to pay a donation for the chance to win a prize. If the organizer implies or coerces the participant in any manner, there is a substantial risk of violating law.</p>	
Poker runs	
<p>Poker runs are usually associated with snowmobiles or other motorized vehicles, and the participant pays for the chance of picking up cards at various locations that enable the best winning hand to win a prize. This is not a legal form of gambling under the Gambling Control Board, and the poker run sponsor runs the risk of operating a gambling place and/or conducting an illegal lottery.</p>	

Internal Controls: Illegal Gambling (continued)

Sports boards illegal

Sports boards are based on the outcome of sporting events, and the participant pays for the chance of winning a prize on the board.

The most common types of sports boards are serialized 55-number boards, 100-number boards, or ten-number boards.

NOTE: At its June 18, 2012, Board meeting, the Gambling Control Board, with advice from the Minnesota Attorney General's Office, took action to affirm that based on the federal law pertaining to the Professional and Amateur Sports Protection Act and prohibition of wagering on the outcome of sporting events, the Board shall not consider or approve any game form from a licensed manufacturer where the winner is determined, directly or indirectly, by the outcome of a sporting event until such time that federal restrictions are successfully challenged or removed.

Dice restrictions

Social dice games are permitted on the premises and adjoining rooms of an establishment licensed to sell alcoholic beverages. Only the following games are allowed, and restrictions apply to these games as noted:

- board games played with dice; or
- dice games commonly known as Shake-a-day, Horse, Liar's poker, Who buys, Last chance, 3-2-1, Aces, and 6-5-4.

Restrictions—Wagers or prizes for the games must be limited to food or beverages, and **the retail establishment may not organize or participate financially in the games.**

All other forms of dice games are illegal, and are not allowed in establishments licensed to sell alcoholic beverages.

Video game of chance or touch screen video

Any video game may be illegal. Some machines have the capability to change from a legal game (such as Trivia) to an illegal game (such as poker) with the flip of a switch. If the machine is capable of playing illegal games, it is considered a video game of chance.

Ask the lessor questions about the video games at the site to determine **if they are legal**. Some questions to ask:

- Is the machine capable of playing illegal games that include common gambling forms?
- Is the lessor aware of the consequences?

Contact the Department of Public Safety with questions.

Video poker machines or eight-line video slots

These are considered gambling devices and as such are illegal outside of a dwelling (home) or a tribal casino.

Questions?

For questions regarding illegal gambling, contact the Department of Public Safety's Alcohol and Gambling Enforcement Division at 651-201-7500, Ext. 3, or www.dps.mn.gov.

Reports: Filing Requirements

Due the 20th of the following month

G1 Lawful Gambling Monthly Tax Return..... File with Department of Revenue
 Schedule B2—Lawful Gambling Report of Barcoded Games File with Department of Revenue
 Worksheet E—Combined Net Receipts Tax Keep in organization's file

Send the following by email to the Gambling Control Board using the required electronic format.

- LG100A—Lawful Gambling Receipts and Expenses by Site
- LG100C—Lawful Purpose Expenditures
- LG100F—Lawful Gambling Fund Reconciliation

The electronic format is available at www.mn.gov/gcb.

Monthly for membership

LG1004 Monthly Gambling Report to Members Keep in organization's file
 LG216 Rent Worksheet (for each leased site) (if applicable) Keep in organization's file
 LG267 Worksheet for Code A22 Real Property or Capital Assets (if applicable) Keep in organization's file
 Worksheet CS—Cash Shortages (if applicable)..... Keep in organization's file

Organization's fiscal year end

Annual certified inventory and cash count File with Department of Revenue

(NOTE: This is required for all licensed organizations. Contact Revenue for the form or format to use.)

If gross receipts are over \$750,000, annual audit is required and must be sent to the Department of Revenue.

Local unit of government

Check with your local unit of government (city or county) regarding any taxes and reporting requirements that may apply to your organization.

Case Studies: Embezzlement

What happened?

A CEO of a licensed gambling organization embezzled over \$70,000 from the organization's general funds in a two-year period. The money was profits from the gambling operation that were transferred to the 501(c)(3)'s general funds.

"Our former president embezzled over \$77,000 from our organization's general funds in a two-year period."

How it happened?

The CEO opened another general account at the same bank as their other general account, but the CEO was the only authorized signer. Instead of depositing money donated from the gambling bank account in the regular general fund, he deposited the gambling money in the new account. Then he spent the money for personal use.

Why didn't anyone catch on?

Because the treasurer did not keep sufficient accounting records and did not present a treasurer's report at their membership meetings, no one suspected anything. The CEO saw the opportunity to steal the money, which was in excess of what the organization needed, and he knew the treasurer would be unable to track the money.

What could have been done to prevent it?

Communication—The other board members never questioned the CEO or treasurer. One reason is that there were no reports to question. The other reason was that the treasurer became aggressive if anyone questioned her.

Checks and Balances—The organization had no internal controls in place for the general funds to hold the treasurer or CEO accountable. There was very poor recordkeeping and no account reconciliation, either of which would have prevented the embezzlement.

So how was it discovered?

Communication—The gambling manager reported what appeared to be an error in the treasurer's reporting of lawful purpose transfers from the gambling account to the general funds. The gambling manager was key to finding the problem.

Bank records were requested and members learned about the new account even though the CEO had just closed the account. An outside accountant quickly reviewed the statements and verified the missing funds.

Editorial Note—The organization fortunately had a gambling manager in place who had a fully accountable gambling operation. This enabled the organization to track funds and help law enforcement determine that gambling fund transfers and general monies were used personally by the CEO.

Whether problems occur on the general fund or gambling side of the ledger, membership participation is the key to success.

Case Studies: Fund Losses

The “Almost Did Everything Right” Case



The seller did the following:

- closed the paper pull-tab booth at night and audited games in play;
- compared cash in hand to net receipts and recorded information;
- put the records and following day's start-up cash in a safe;
- put game receipts in a bag for the night depository; and
- then left the bag in the booth and went to the restroom.

When the seller returned, the money was missing.

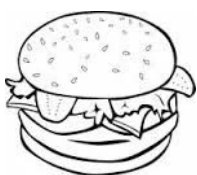
Board action: The fund loss was denied because the money was not kept secure at all times.

This fund loss could have been prevented if the seller had secured the money before going to the restroom.

The Hamburger Caper

- A bartender was counting money at the end of the evening.
- Two people entered the bar and ordered hamburgers.
- The bartender left the money unattended and went to the kitchen to prepare the order.
- When the bartender returned to the bar, the people had taken the money and left.

Board action: The fund loss was denied because the money was not kept secure at all times.



This fund loss could have been prevented if the organization's employee had properly secured the funds before leaving the bar area.

The Inside Bingo Heist

- The bingo paymaster was getting money for a bingo occasion, carrying the money in an unsecure manner (unbound, unwrapped, and not in a money bag).
- Before returning to her station, she stopped at the concession counter. Someone came up behind her and took the money from her hand.
- The suspect ran outside and jumped into a vehicle at the side entrance. The getaway vehicle, driven by the paymaster's (now ex-) boyfriend, hit several other vehicles as it sped away from the scene.

Board action: The fund loss was denied because of the lack of adequate security over cash and inventory within the premises.

Case Studies: Fund Losses (continued)

The Magical Disappearing Deposits



- Paper pull-tab deposits “mysteriously” disappeared from a premises.
- The seller, who became a suspect, either failed to secure the money or remove the deposits that had been placed in a moneybag and secured overnight in the bar’s safe.
- Several people, both bar and organization employees, had access to the moneybag.

Board action: The fund loss was denied because of lack of adequate security over cash within the premises.

Good grief! An Alarm and A Safe and Still.....

- The paper pull-tab seller closed the paper pull-tab booth for the evening, following the organization’s internal control procedures.
- The paper pull-tab seller put the receipts into the organization’s safe.
- The paper pull-tab seller set the security alarm system before leaving the bar.
- Suspects entered the building, setting off the security alarm.
- The suspects removed the safe containing paper pull-tab receipts.

Board action: The fund loss was approved because the organization had used proper internal controls and a safe to ensure that assets were protected at all times.



The Drive-In Adventure

- The suspect drove a vehicle into the rear door of the business to gain entry to the bar.
- The suspect removed the paper pull-tab dispensing machine from the premises.
- The suspect then drove off from the premises.

Board action: The Gambling Control Board approved the fund loss because the loss was beyond the organization’s control.



The “Open for All to Safely See” Case

- The suspects used a pry bar to force open the back door of the premises.
- The suspects then pried open another door inside the premises, gaining access to the room containing a safe.
- The safe was cemented to the floor.
- The suspects removed the money from the unlocked safe. The safe was not damaged.

Board action: The Gambling Control Board denied the fund loss because the safe had been left unlocked.

NOTE: Some organizations leave their safe unlocked during the day so bartenders and sellers have access to the cash when the owner or person who knows the combination is not at the premises.

This is unacceptable internal controls. Money left in a safe must be kept secure at all times—so keep the safe locked.



Case Studies: Fund Losses (continued)

The "Hide the Key to the Safe" Case

- The organization used a keyed safe to secure the funds overnight.
- The paper pull-tab seller hid the key to the safe at night, so the day person could open the safe in the morning.
- The bar was burglarized. The suspects found the key to the safe, opened the safe, and removed the funds.



Board action: The fund loss was denied, because the organization hid the key to the safe on the premises and the suspects found it to remove the money.

Hiding keys or combinations to the safe on the premises is an unsatisfactory internal control. This fund loss could have been prevented if the key to the safe had been secured off site.

The "Uncool Hide and Seek" Case

- A suspect possibly hid in the bathroom at closing.
- The suspect took the money that was hidden in an unlocked cooler.

Board action: The fund loss was denied, because the organization hid the money instead of locking the money in a locked cabinet or safe.

The "What's Not Cooking" or "Where's the Dough?" Case

- The bar was burglarized by a suspect who broke in through a door.
- The suspect took the money that was hidden in an unused oven in the storage room.

Board action: The fund loss was denied, because the organization hid the money instead of locking the money in a locked cabinet or safe.



The Storage Room "Hide and Seek" Case

- The bar was burglarized by breaking through a side door.
- All the bar machines were broken into. The suspects found the money bags containing the paper pull-tab receipts hidden in the storage room.

Board action: The fund loss was denied because the organization hid the money instead of locking the money in a safe.

Case Studies: Inventory

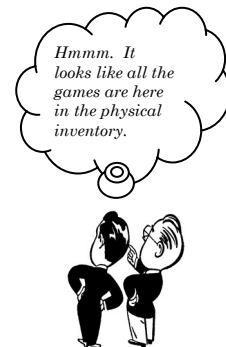
A person might be provided with the opportunity to steal—even someone the organization members have known and trusted all their lives—if the organization does not conduct a physical inventory every month.

Most gambling-related theft and fraud can be prevented if the organization follows an effective system of internal controls. The examples below describe how poor internal controls for inventory and deposits may result in a fund loss for an organization.

The Case of the “Non-Shrinking” Inventory

- An organization authorized the lead pull-tab seller at their site to order more paper pull-tab games as needed and to decide which games the other sellers were to put into play.
- Occasionally, the lead seller would put a game in play at the beginning of her shift and then remove the game from play at the end of her shift. Then she’d put the cash, winning tickets, prize receipts, flare, and any unsold tickets all in the original box the game came in and take it home.
- Once home, the cash went in her purse and the rest of the items, except the box, went in the garbage. She carefully closed the box and ran it through a shrink wrap machine so that it looked like it had never been opened. Then she brought the box back to the site and put it with the other unopened games.
- When the CEO conducted the physical inventory at the end of each month, she didn’t notice that some of the “unopened” games on the shelf were actually empty.
- Over time, the number of “unplayed” games in inventory doubled and then tripled. When the lead pull-tab seller was hospitalized after a car accident, the gambling manager decided to put into play one of the games that had been in inventory for over a year. When he lifted up the game box, he knew the organization had been duped.

Solution: The gambling manager should have become suspicious when the number of games in inventory kept increasing month after month. When delegating responsibility, it’s still important to closely monitor all aspects of the gambling operation.



The “Perfect but Not So Perfect Records” Case

An organization kept what seemed to be excellent perpetual inventory records, but still experienced a theft of unplayed paper pull-tab games.

- The organization provided invoices to its accountant for every paper pull-tab game purchased. The Schedule B2 reports listed every game closed. This information was used to produce the perpetual inventory record.
- The organization did not conduct a monthly physical inventory in which an employee, a member, or a volunteer visited each of the sites to verify that the games listed on the perpetual inventory were actually located at each premises.
- The organization did not discover until a year later that over 20 games listed in inventory at one site were missing. Apparently, the games had been played at the site, no deposit for the games had been made, and the closed games had been destroyed.

Solution: If the organization had completed the required on-site physical inventory each month, the theft would have been discovered immediately and a \$10,000 fund loss could have been avoided or lessened.

Case Studies: Criminal Charges Filed

The following are felony cases where criminal charges were filed in Minnesota district courts. The charges resulted from investigations conducted by the Gambling Control Board and Department of Public Safety.

Activity/Problem	Criminal activity
Theft. Games were short; LG861 not completed.	The lessor took gambling funds and used them to pay a portion of his business expenses. Felony charges were filed. (In a similar case, an organization was experiencing cash shorts. An investigation revealed that the lessor was taking gambling funds from paper pull-tab games for personal use.)
Prize receipts forged. The lessor and one of the lessor's employee forged prize receipts to claim paper pull-tab prizes.	The lessor and an employee used the driver's license of another individual to claim paper pull-tab prizes and falsify prize receipts. Felony charges were filed. (In a similar case, a lessor, in collusion with a paper pull-tab seller, was playing games, using the driver's license of other individuals, and forging prize receipts.)
Records altered. Paper pull-tab game and deposit records were inconsistent, and deposits were not made within four business days of game close.	The organization's previous gambling manager altered game and deposit records, and prepared false gambling tax returns. The gambling manager denied using any funds for personal purposes. Felony charges were filed.
False tax returns prepared. Deposits were missing.	The gambling manager repeatedly prepared false gambling tax returns and altered inventory records to cover up cash shortages. The gambling manager denied stealing any money. Felony charges were filed.
Deposits in transfer. A Revenue audit revealed an apparent theft of gambling funds.	The gambling manager had falsely stated that a theft had occurred and said that was the reason for "late deposits." The gambling manager, in fact, had taken over \$12,500 in gambling funds. The gambling manager was the only person with access to open the portion of the drop safe where deposits were placed. Sellers were only allowed access to open the cash bank/game cash portion of the drop safe. The gambling manager admitted using the money for gambling. Felony charges were filed.

There are different levels of criminal charges based on the activity. For more details, see Minnesota Statutes, Section 609.763, which contains the penalties for lawful gambling fraud.